

REPORT OF  
ASSOCIATION EXAMINATION  
OF  
THE KNIGHTS OF PETER CLAVER, INC.  
NEW ORLEANS, LOUISIANA

AS OF  
DECEMBER 31, 2003

PARTICIPATION:  
SOUTHEASTERN ZONE  
ALABAMA

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**STATE OF ALABAMA  
CITY OF BIRMINGHAM**

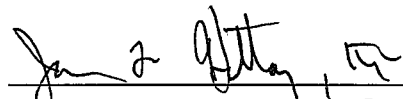
James L. Hattaway, III, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama.

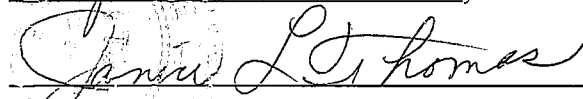
That an examination was made of the affairs and financial condition of The Knights of Peter Claver, Inc. for the period January 1, 2001 through December 31, 2003.

That the following 36 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama.

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
James L. Hattaway, III, CFE

Subscribed and sworn to before the undersigned authority this 1<sup>st</sup> day of September, 2004.

  
\_\_\_\_\_  
(Signature of Notary Public)

Janice L. Thomas, Notary Public  
(Print Name)  
in and for the State of Alabama.

My commission expires 9-16-04.

August 27, 2004

Honorable Jose Montemayor

Chairman, Examination Oversight Committee

Texas Department of Insurance

PO Box 149104

Austin, Texas 78714-9104

Secretary, Northeastern Zone

Honorable Diane Koken

Commissioner

Pennsylvania Insurance Department

1326 Strawberry Square

Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone

Honorable John Oxendine

Georgia Department of Insurance

2 Martin Luther King, Jr. Drive

Floyd Memorial Bldg., 704 West Tower

Atlanta, Georgia 30334

Secretary, Midwestern Zone

Honorable Sally McCarty

Insurance Commissioner

311 West Washington Street,

Suites 103 & 300

Indianapolis, Indiana 46204-2787

Secretary, Western Zone

Honorable John Morrison

Montana Department of Insurance

840 Helena Avenue

Helena, Montana 59601

Honorable Walter A. Bell

Commissioner of Insurance

State of Alabama Department of Insurance

P. O. Box 303351

Montgomery, Alabama 36130-3351

Dear Commissioners:

Pursuant to your instructions and in compliance with statutory requirements of the State of Alabama and in resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the accounts and records of the

### **KNIGHTS OF PETER CLAVER, INC.**

as of December 31, 2003, at its home office located at 1825 Orleans Avenue, New Orleans, Louisiana 70116. The report of examination is submitted herewith. Where the description, "Order," appears herein, without qualification, it is understood to indicate the Knights of Peter Claver, Inc.

## SCOPE OF EXAMINATION

The Order was last examined for the three years ended December 31, 2000 by an examiner representing the State of Alabama. The current examination was conducted by an examiner representing the State of Alabama and covers the intervening period from the date of the last examination through December 31, 2003. Where deemed appropriate, transactions subsequent to December 31, 2003 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins, in accordance with the applicable procedures and applicable guidelines promulgated by the National Association of Insurance Commissioners (NAIC), and in accordance with generally accepted examination standards.

The examination included an inspection of corporate records, tests of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established as of December 31, 2003, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items to which a material change was made, or which indicated a violation of the Alabama Insurance Code, or for which comments and/or recommendations were deemed appropriate. The Order's office copy of the filed Annual Statements for the period under review were compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Order's plan of operation, territory, policy forms, advertising, compliance with agents' licensing requirements, member complaints, and treatment of members and claimants.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2003.

## ORGANIZATION AND HISTORY

The Order was organized in Mobile, Alabama on November 7, 1909 and operated as a voluntary association until July 12, 1911. At that time, the Order was incorporated under the laws of the State of Alabama as a non-profit fraternal benefit society with a lodge system and a representative form of government.

The purposes for which the Order was formed, as stated in the Charter, Constitution and By-laws, as reviewed in 1999, are as follows:

- (1) The rendering of pecuniary aid to the members of the Knights of Peter Claver and beneficiaries of the members.
- (2) The rendering of mutual aid and assistance to the sick and disabled members of the Knights of Peter Claver.
- (3) The promotion of such social and intellectual intercourse among its members as shall be desirable and proper and by such lawful means as may seem best.
- (4) The location and establishment of subordinate councils or other branches or divisions thereof, composed of members of said corporation, in any town or city of this state or any state of the United States, or any foreign country, and such councils, branches or divisions so established shall be governed and managed by such laws, by-laws, rules and regulations as said corporation shall determine, and said corporation may enforce such laws, by-laws, rules and regulations against any subordinate council, branch or division by action at law in any court in this State or any State of the United States, or any court in any foreign country and all subordinate councils or other branches therefore established by said corporation shall be governed by such laws, by-laws, rules and regulations as are now in force, or which may hereafter be adopted by said corporation by suit at law in this State or any State of the United States, or any court in any foreign country.
- (5) The establishment, accumulation and management of a reserve or other fund in such manner and such amount as it may determine for the purpose of more effectually rendering aid and assistance to its members.

There are three classes of membership in the Order.

1. Insured members are entitled to all benefits of the Order.
2. Associate members are entitled to all benefits of the Order with the exception of insurance.
3. Honorary members, consisting of Priests, who may enjoy such membership without cost to themselves, shall not be assessed nor shall they receive insurance benefits unless they elect to become insured members by meeting all the requirements of such members.

## **MANAGEMENT AND CONTROL**

The supreme legislative body of the Order is the National Council and it is vested with full power and authority to make, alter, repeal and enforce all laws, rules and regulations for the government, management, control and discipline of any or all divisions of the Order and/or the members of the same in any state, district, territory or foreign country in which the Order is now or may hereafter be established. All executive authority of the National Council is vested between conventions in a Board of Directors, which meets immediately before and after the national convention.

### ***Board of Directors***

The members of the Board of Directors of the National Council and Court at December 31, 2003 were as follows:

<b>Director/Residence</b>	<b>Title</b>
Arthur C. McFarland Charleston, South Carolina	Supreme Knight
Gene A. Phillips, Sr. Houston, Texas	Deputy Supreme Knight
Michael Taylor Virginia Beach, Virginia	National Secretary
Louis Hawkins, Jr. Houston, Texas	National Treasurer
Vincent Wilkins, Jr. Upper Marlboro, Maryland	National Advocate
Robert E. Miller Chicago, Illinois	Lay Board Member

James A. Coleman Lake Charles, Louisiana	Director General Junior Knights
Dominic Carmon Kenner, Louisiana	National Chaplain
A. Jackie Elly Moss Point, Mississippi	Past Supreme Knight
Garry Bostick Edmond, Oklahoma	District Deputy of Central States
Roosevelt J. Stevenson Baton Rouge, Louisiana	State Deputy of Louisiana
Gerald W. Joseph Houston, Texas	State Deputy of Texas
Mervin Hughes Los Angeles, California	District Deputy of Western States
Emmett C. Orr Dayton, Ohio	District Deputy of Northern States
Leonard V. Stiehl Mobile, Alabama	District Deputy of Gulf Coast
W. Charles Keyes, Jr. New Orleans, Louisiana	Executive Director

The Order did not include the full names of the Directors in the 2003 Annual Statement. The Order did not list the Officers as Directors in its 2003 Annual Statement (even though they were Directors).

## **Officers**

National Officers of the Order are elected for two-year terms. Those serving at December 31, 2003 were as follows:

<b>Officer</b>	<b>Title</b>
Arthur C. McFarland	Supreme Knight
Gene A. Phillips, Sr.	Deputy Supreme Knight
Michael Taylor	National Secretary
Louis Hawkins	National Treasurer
Vincent Wilkins, Jr.	National Advocate
Robert E. Miller	Lay Board Member
James A. Coleman	Director General, Junior Knights

The National Court is composed of representatives of the Knights of Peter Claver Ladies Auxiliary. This division does not have legislative powers but it does pass and send resolutions to the National Council on matters pertaining to the Ladies Auxiliary. Officers and Directors of the National Court at December 31, 2003 were as follows:

Officer	Title
Mary L. Briers	Supreme Lady
Grace Dawson	Vice Supreme Lady
Lena Young	National Secretary
Yvonne Jackson	National Treasurer
Elsa Phillips	National Counselor of Junior Daughters
Brenda Andrus	National Lay Board Members
Leodia Gooch	Past Supreme Lady
Cynthia Lyons-Jackson	State Deputy of Louisiana
Tamara Bell-Murray	District Deputy of Western States
Vertelle A. Kenion	District Deputy of Gulf Coast
Marion Smith-Reynoso	District Deputy of Northern States
Barbara M. Murray	State Deputy of Texas
Loretta Richardson	District Deputy of Central States

### ***Executive Committee***

The Order's constitution provides for an executive committee to be composed of officers of the Order. Those serving at December 31, 2003 were as follows:

Officer	Title
Arthur C. McFarland	Supreme Knight
Gene A. Phillips, Sr.	Deputy Supreme Knight
Michael Taylor	National Secretary
Louis Hawkins, Jr.	National Treasurer
Vincent Wilkins, Jr.	National Advocate

This committee meets the first month of each quarter in the calendar year or when an emergency exists. All actions of this committee must be approved by a referendum vote of the entire Board of Directors.

## ***Investment Committee***

The Order's constitution provides for an investment committee consisting of National Council Members. Those serving at December 31, 2003 were as follows:

<b>Officer</b>	<b>Title</b>
Arthur C. McFarland	Supreme Knight
Michael Taylor	National Secretary
Louis Hawkins, Jr.	National Treasurer
Vincent Wilkins, Jr.	National Advocate
A. Jackie Elly	Past Supreme Knight
Mary L. Briers	Supreme Lady

## ***Conflict of Interest***

The Order could not locate conflict of interest statements for the years 2001 and 2003. For the year 2002, the Order did not provide conflict of interest statements for Mr. Berard, Mr. Murry, Mr. Broyles, Mr. Briers, Jr., and Mr. Keyes, Jr. The Supreme Knight indicated that the first four individuals were retired from the Board at the 2002 National Convention and thus no statements were necessary for them.

The previous examination noted that the Order could not locate conflict of interest statements for a portion of the examination period.

## **FIDELITY BOND AND OTHER INSURANCE**

The Order maintained a fidelity bond in an amount that complied with the NAIC's suggested guidelines. In addition, the Order maintained:

- Flood Insurance for the home office property and contents.
- Commercial General Liability
- Commercial Excess Liability
- Commercial Property Insurance
- Business Personal Property
- Commercial Automobile
- Employee Benefits Liability.

## EMPLOYEE WELFARE

Benefits provided by the Order to its employees included the following at December 31, 2003.

Group Hospital and Major Medical Insurance  
401(k) Deferred Compensation Plan  
Vacation Leave  
Sick Leave  
Paid Holidays

## FINANCIAL CONDITION/GROWTH OF THE ORDER

The following table sets forth the significant items indicating the growth and financial condition of the Order for the four-year period ended December 31, 2003.

YEAR	ADMITTED ASSETS	LIABILITIES	UNASSIGNED FUNDS	PREMIUM INCOME
2000*	\$3,901,936	\$2,174,931	\$1,727,005	\$1,199,791
2001	4,123,920	1,935,382	2,188,538	1,207,120
2002	4,027,665	1,705,487	2,322,178	1,164,862
2003*	3,762,943	2,804,377	958,566	1,118,491

## MARKET CONDUCT ACTIVITIES

### *Territory and Plan of Operation*

The Order reflected in Schedule T of its 2003 Annual Statement that it was licensed to conduct business in Alabama, Texas, Louisiana, Oklahoma, South Carolina, Virginia, Pennsylvania, and Nebraska. The Order did not provide certificates of authority for the examiner's review for the states of Louisiana and Texas.

The Order's Supreme Knight indicated that the Order, at December 31, 2003, has requested licensing in the states/territories of California, Washington D.C., Florida, Georgia, Illinois, Kentucky, Maryland, Michigan, Mississippi, and New Jersey.

Subsequent to December 31, 2003, he indicated that licenses were issued by Washington D.C. and Maryland. Finally, the Order's Supreme Knight indicated that "We are investigating the use of underwriters in states where our membership potential is so small that it is not economically feasible to become licensed. No final decision has been made with respect to these states who are among the remaining ones where no license applications have been submitted."

The preceding report of examination disclosed that the Order had written policies in states where it is not licensed including: Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Virginia, Washington and Wisconsin. The Order maintains that no state has fined the Company for writing business without being licensed.

The preceding two reports of examination recommended that the Order become licensed in each jurisdiction where it conducts business (including has councils and conducting any activity of insurance.) The Order did not demonstrate that it has fully complied with this recommendation. In states where the Order is not licensed, it is still accepting new membership but not issuing certificates based on recommendations in the two preceding reports of examination. The Order incorrectly included new memberships as new certificates issued, overstating certificates issued during the year in its 2003 Annual Statement. In addition, the Order issued one group insurance certificate in California and two group insurance certificates in Mississippi, while not being licensed in either state.

The preceding two reports of examination recommended that the Order identify those jurisdictions where a fraternal benefit society is prohibited from writing group life policies and take appropriate action to correct the conversions and not write any additional group policies in those jurisdictions. The Order did not indicate that any action had been taken on this issue.

Membership in the Order is restricted to practicing Roman Catholics who, at the time of initiation or obligation, are eighteen and over for Knights and Ladies and between the ages of seven and eighteen for the Junior Knights and Junior Daughters. Dues and assessments are collected by the financial secretary of the subordinate Councils and Courts and are reported monthly to

the home office.

### ***Policy Forms and Underwriting Practices***

Effective January 1, 1998, the Company began issuing all new policies under the "Group Insurance Plan." The benefits for this plan are as follows, provided the member has been in the Order for six or more months, or one-half the amount if the member has been in the Order less than six months.

Age at Issue	Benefit Amount
18 through 30	\$2,500
31 through 35	\$2,087
36 through 40	\$1,900
41 through 45	\$1,712
46 through 50	\$1,600
51 through 55	\$1,450
56 and older	\$1,225

All members were given the opportunity to convert to the new group insurance plan with an increase in benefits of \$1,000 over their existing coverage.

There is no underwriting of the group policies being issued by the Company.

The preceding report of examination noted that policies issued prior to January 1, 1998 did not offer any nonforfeiture benefits, such as paid-up insurance or cash surrender values. In accordance with the Alabama Insurance Code, fraternal benefit societies were allowed, but not required to offer nonforfeiture benefits in its life benefit certificates prior to January 1, 1972, however, after January 1, 1972, and in accordance with Section 27-34-25(a), Code of Alabama 1975, as amended, fraternal benefit societies were required to offer at least one paid-up nonforfeiture benefit, in its whole life insurance plans. The Order provided a Policy Addendum, which was sent to the Alabama Department of Insurance on May 25, 2002. No evidence was provided of the approval or implementation of this Policy Addendum.

### ***Member Complaints***

The Alabama Department of Insurance had no recorded complaints against the Order during the period covered by this examination. The Order's complaints handling procedures do not include the maintenance of a complaints register as mandated by the NAIC Market Conduct Examiners Handbook.

### ***Treatment of Claimants***

The examiner reviewed a sample of fifty claims paid in January and February 2004. Claims files are not consistently documented. It is difficult, and impossible at times, to determine the reasons for delays in paying claims. In addition, date stamps are not consistently used to stamp correspondence. The examiner utilized the latest date available in the file in his calculations. Thirty-two of the fifty claims reviewed were not paid within sixty days of satisfactory proof of death.

### ***Advertising***

Advertising or promotion by the Order has been limited primarily to the publication of the national official organ known as The Claverite, which is published and distributed to members of the Order.

### ***Compliance with Agents' Licensing Requirements***

The Order did not have licensed agents. As the Order does not actively solicit insurance sales and does not pay commissions, there is no licensing required by Section 27-7-4.2, Code of Alabama 1975, as amended.

## **REINSURANCE**

The Order had no assumed or ceded reinsurance as of December 31, 2003.

## ACCOUNTS AND RECORDS

The Order's records are computerized with certain detail subsidiary records maintained manually. The Order did not maintain a "freeze" of all detail supporting the Annual Statements for the period covered by this examination. The Company contracts with an independent EDP consultant to provide computer support for various operations, including reserve information.

The CPA firm, Bruno & Tervalon, LLP, was retained by the Order to prepare and audit the Quarterly and Annual Statements filed with the various Departments of Insurance. In addition to issuing the Annual Audit Opinion, the firm of Bruno & Tervalon, LLP, Certified Public Accountants, prepares adjusting journal entries for the Order and the Quarterly and Annual Statement filings of the Order.

The Order solely relies on a contractor to provide support for all of its computer operations. The contractor completed the Evaluation of Controls in Information Systems Questionnaire.

### ***Independence of Opining CPA***

The NAIC's Annual Statement Instructions require that the annual audit be conducted by an independent CPA in good standing with the American Institute of Certified Public Accountants (AICPA). The AICPA specifies certain standards for independence, including, among others, that management accepts and understands all work performed and all accounting procedures accomplished by the CPA. The CPA supervised the accounting operations and prepared the Company's Quarterly and Annual Statements. The annual financial audit was performed by the CPA firm on its own work. Independence has not been demonstrated for the purposes of this examination. In addition, the opining CPA firm did not test the reserve calculations provided by the Order's consulting actuary.

## ***Consideration of Fraud***

The Order has not established a procedure for reporting fraudulent insurance acts to the commissioner because it is not aware of any fraudulent insurance acts. The Order's claim forms and applications do not contain any language regarding fraud.

## ***Compliance with ALA. ADMIN. CODE § 482-1-122***

In accordance with the Ala. Admin. Code § 482-1-122, Article II, Section 5 A: "...A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices..."

Under Section 15 of the aforementioned regulation: "The requirement for initial notice in Section 5A(2), the opt out in Sections 8 and 11, and service providers and joint marketing in Section 14 do not apply if the licensee discloses nonpublic personal financial information as necessary to effect, administer or enforce a transaction that a consumer requests or authorizes..." "B. 'Necessary to effect, administer or enforce a transaction' means that the disclosure is...(2) Required, or is a usual, appropriate or acceptable method of...(c) To provide a confirmation, statement or other record of the transaction, or information on the status or value of the insurance product or service to the consumer or the consumer's agent or broker... (e) To underwrite insurance at the consumer's request or for any of the following purposes as they relate to a consumer's insurance: account administration, reporting, investigating or preventing fraud or material misrepresentation, processing premium payments, processing insurance claims, administering insurance benefits (including utilization review activities), participating in research projects or as otherwise required or specifically permitted by federal or state law."

The Company is required under Section 7 C (5) of the aforementioned regulation to supply its customers with simplified notices under Section 7 A (1), A (8), A (9), and B. This regulation required that the notices be sent by December 31, 2001. The Company has not sent any notices as of the date of this examination report.

## FINANCIAL STATEMENTS INDEX

The financial statements included in this report were prepared on the basis of the Order's records and the valuations and determinations made during the examination for the year ended December 31, 2003. Amounts shown in the comparative for the years 2001 and 2002 were compiled from the Order's copies of the filed Annual Statements.

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THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**KNIGHTS OF PETER CLAVER, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

<b><u>ASSETS</u></b>	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds (Note 1)	\$2,494,364		\$2,494,364
Preferred stocks (Note 2)	333,260		333,260
Common stocks (Note 3)	368,839		368,839
Mortgage loans	46,705	31,722	14,983
Properties occupied by the company	280,349	111,856	168,493
Investment real estate	13,341	10,796	2,545
Cash and short-term investments (Note 4)	305,945		305,945
Other invested assets (Note 3)	0		0
Electronic data processing equipment	6,560		6,560
Investment income due and accrued (Note 5)	36,774		36,774
Uncollected premiums and agents' balances in the course of collection (Note 6)	0		0
Other assets nonadmitted	2,714	2,714	
Cash surrender value key person life (Note 7)	30,719		30,719
Interest maintenance reserve	9,052	9,052	
Prepaid expenses (Note 8)	463		463
Total Assets	\$3,929,085	\$166,140	\$3,762,943
<b><u>LIABILITIES</u></b>			
Aggregate reserve for life certificates and contracts (Note 9)			\$2,421,125
Certificate and contract claims – Life (Note 10)			176,342
Premiums and annuity considerations received in advance (Note 6)			0
General expenses due or accrued (Note 11)			58,467
Taxes, licenses and fees due or accrued (Note 11)			0
Amounts withheld or retained by Society as agent or trustee (Note 12)			38,351
Asset valuation reserve (Note 13)			102,898
Borrowed money (Note 11)			0
Escrow on mortgage loans			7,194
Total Liabilities			\$2,804,377
<b><u>UNASSIGNED FUNDS</u></b>			
Unassigned funds (Note 14)			\$ 958,566
Total Liabilities and Unassigned Funds			\$3,762,943

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**KNIGHTS OF PETER CLAVER, INC.**  
**SUMMARY OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, and 2003**

<b><u>Income</u></b>	2001	2002	2003
Premiums and annuity considerations	\$1,207,120	\$1,164,862	\$1,118,491
Net investment income	205,421	215,556	179,062
Amortization of Interest Maintenance Reserve	-2,306	-3,017	-3,017
Aggregate write-ins for miscellaneous income	349,391	407,250	386,940
Total income	\$1,759,626	\$1,784,651	\$1,681,476
<b><u>Deductions</u></b>			
Death benefits	\$521,926	\$448,942	\$479,769
Increase in aggregate reserve for life and accident and health certificates and contracts	-272,323	-272,395	999,343
General insurance expenses and fraternal expenses	1,322,352	1,529,281	1,477,120
Insurance taxes, licenses and fees	12,091	567	
Total Deductions	\$1,584,046	\$1,706,395	\$2,956,232
Net gain from operations before refunds to members	\$175,580	\$78,256	\$-1,274,756
Refunds to members	0	0	0
Net gain from operations after refunds to members and before realized capital gains or (losses)	\$175,580	\$78,256	\$-1,274,756
Net realized capital gains or (losses)	-32,232	42,644	-92,524
Net income	\$143,348	\$120,900	\$-1,367,280

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**KNIGHTS OF PETER CLAVER, INC.**  
**SURPLUS ACCOUNT**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 and 2003**

	2001	2002	2003
Surplus December 31, prior year	\$2,125,992	\$2,188,538	\$ 2,322,178
Net income from operations	\$143,348	\$120,900	\$-1,367,280
Change in net unrealized capital gains or (losses)	-80,389	25,925	60,568
Change in nonadmitted assets and related items	2,306	3,018	3,017
Change in asset valuation reserve	-2,719	-16,203	-59,915
Net change in surplus for the year	\$62,546	\$133,640	\$-1,363,610
Surplus December 31, current year	\$2,188,538	\$2,322,178	\$ 956,568

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Bonds

\$2,494,364

The captioned amount is the same as reported by the Order in its 2003 Annual Statement.

The Order did not complete Columns 7 and 8 of Schedule D - Part 1 which should disclose call prices and call dates of bonds. The examiner obtained the call information from the Order's custodian. The examiner determined that the maximum overstatement of bonds was \$9,761 due to the admitted value of four of the Order's bonds exceeding the call price of the bonds. This maximum potential overstatement was not material. SSAP No. 26 of the NAIC Accounting Practices and Procedures Manual Section 6 requires that: "Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst)."

In reviewing Schedule D - Part 1, the examiner noted that the Order did not appropriately calculate the effective rate of interest in Column 21. The Order disclosed the rate of interest of the bond instead of the effective rate of interest. This was done incorrectly for the entire bond portfolio. An inquiry was sent to the Order's CPA, who prepared Schedule D, and he stated that they input the actual interest rate instead of the effective interest rate because there didn't appear to be a significant difference.

The Order's mortgage-backed securities have face interest rates of 6% to 10% with purchase dates of 1988 to 2002, with the bulk being in the late 80s and early 90s. These rates of interest appear to be reasonable. It is noted for the mortgage-backed securities that the actual cost and current book values contained inaccuracies. The Order's CPA disclosed that "The cost amounts utilized were carried forward from the previous auditors and reduced annually for principal reductions. As was noted in the 2000 examination report the carrying value (which equaled cost) appeared to be significantly above market so as I mentioned we wrote down the carrying value to more closely approximate market and par. I had no basis to change the cost as that

information was not available."

It is noted that the Company has significantly reduced its purchases of mortgage-backed securities since the preceding examination due to the examiners discussing the expertise required in order to make informed decisions and adequately monitor these types of investments. The Company only purchased one GNMA issue with a par value of \$73,683 during the period covered by this examination.

**Note 2 - Preferred stocks**

**\$333,260**

The captioned amount is the same as reflected by the Order in its 2003 Annual Statement

There were two preferred stocks that were acquired on September 22, 2003 that were not valued by the NAIC VOS. At year-end 2003, the Order was still within the 120 day timeframe for filing the SARs (Security Acquisition Reports). However, the Order did not present any evidence that the SARs have been filed to date in 2004.

This issue was also addressed in the 2000 Report of Examination.

**Note 3 - Common stocks**

**\$368,839**

**Other Invested Assets**

**\$ -0-**

The captioned amounts are \$76,139 more than and less than the \$292,700 and \$76,139, respectively, reported by the Order in its 2003 Annual Statement.

The Order owned two mutual funds at year-end 2003 that they inappropriately classified as Other Long-Term Invested Assets instead of common stocks. In addition, these mutual funds were not valued by the NAIC VOS. At year-end 2003, the Order was still within the 120 day timeframe for filing the SAR. However, the Order did not present any evidence that the SAR has been filed to date in 2004. The examiner does recommend that the Order non-admit the common stocks in future financial statements until a valuation is received from the NAIC SVO.

**Note 4 - Cash and short-term investments**

**\$305,945**

The captioned amount is the same as reported by the Order in its 2003 Annual Statement.

The Company had a great deal of difficulty in locating voided checks because there is no centralized area for filing copies of check vouchers, including voided checks.

**Note 5 - Investment income due and accrued**

**\$36,774**

The captioned amount is \$14,651 less than the \$51,425 reported by the Order in its 2003 Annual Statement.

The amount of interest accrued at year-end was incorrect. The Order paid \$16,020 above par value for a bond, in addition to accrued interest of \$1,815. The \$1,815 was accurate using a 360 day year and paid for 67 days of interest (\$9,750 divided by 360 times 67 days (July 16, to September 22, 2003 purchase date.))

At year-end 2003, the Order should have accrued \$4468.75 (\$9,750 divided by 360 times 165 days (July 16<sup>th</sup> to December 31, 2003)).

For the interest accrual, the Order overstated accrued interest by \$14,651 (\$19,120-\$4469).

**Note 6 - Uncollected premiums and agents' balances in**  
**the course of collection**  
**Premiums and annuity considerations received**  
**in advance**

**\$0**

**\$0**

The captioned amounts are the same as reported by the Order in its 2003 Annual Statement. The total advance premiums was \$14,107 and the total arrears was \$13,695. Therefore, advance and arrears premiums were basically "wash" transactions; however, the Order should report these amounts in its Annual Statements instead of not reporting anything for these line items.

**Note 7 - Cash surrender value life insurance****\$30,719**

The captioned amount is the same as reported by the Order in its 2003 Annual Statement; however, the examiner determined that the asset should be \$21,447, or \$9,272 less than the \$30,719 reported by the Company as admitted. This immaterial change was not made to the financial statements contained in this report.

The owner of the policy was the Order. The beneficiaries, at 50% each, were the Order and the wife of the insured. Technically, the Order could cash surrender the policy and legally be entitled to the full CSV (cash surrender value); however, it is not the Order's intent to cash surrender the policy. In the event that the policy remains in force and the Order collects a death benefit, the Order would only be entitled to 50% of the death benefit proceeds which is composed of a \$25,000 death benefit plus dividend accumulations. The current total death benefit was \$42,894.12 and the total CSV was \$30,719.12.

SSAP No. 21 implies that the Company must be the owner AND the beneficiary. "5. The cash value of life insurance policies where the reporting entity is the owner and beneficiary is similar to a cash deposit that is realizable on demand. As such, the cash value of a life insurance policy as of the date to which premiums have been paid, less any outstanding policy loans and surrender charges, shall be reported as an admitted asset." However, the examiners feel that a reasonable, logical approach would be to allow the Company to carry the lower of CSV or 50% of the death benefit as an admitted asset since it is a 50% beneficiary.

**Note 8 - Prepaid Expenses****\$463**

The captioned amount is the same as reported by the Order in its 2003 Annual Statement.

The examiner requested detail of the composition of the \$463 prepaid expense at year-end 2003. The CPAs responded that it was immaterial and no detail was provided. In accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 29 "...immaterial prepaid expenses may be expensed when purchased."

**Note 9 - Aggregate reserve for life contracts**

**\$2,421,125**

The captioned amount is \$1,082,245 more than the \$1,338,880 reported by the Order in its 2003 Annual Statement.

The "Aggregate reserve for life contracts" per this examination report consists of the following items:

<b>Type of Business</b>	<b>Amount of Reserve</b>
Individual Certificates	\$ 308,588
Group Certificates Subject to 50 Years Rider	2,047,824
Group Certificates Not Subject to 50 Years Rider	59,725
NonDeduction of Deferred Fractional Premiums	1,907
Immediate Payment of Claims	<u>3,081</u>
Total Reserves	<u><u>\$2,421,125</u></u>

The examination actuary requested on June 17, 2004 that the Order provide certain information and correct the reserve calculations. As of August 17, 2004, the examination actuary had not received the requested information. Therefore, the examination actuary is making certain adjustments to the reserves to provide for adequate reserves on the Order.

Neither the Order, the consulting actuary nor the Alabama Department of Insurance was able to provide evidence that the Department had granted the Order permission to use the 1958 CSO Table to reserve the individual business. The certificate states that reserves are to be based upon the 1941 CSO Table with interest at 3 1/2%. However, the Commissioner of Insurance, in a letter dated May 26, 2005 granted the Order permission to retroactively use the 1958 CSO Mortality Table for all individual certificates, regardless of the year of issue. That reserve based upon the 1958 CSO Table amounts to \$299,693. In addition, the examination actuary and EIC had noted that there were a number of individual certificates that were included in the reserve runs, but did not have reserve factors or reserves shown. The memo had clearly stated that these reserves were to be calculated, but as of August 17, neither the factors nor the reserves had been calculated on those policies that had a reserve of zero. For those policies with a reserve of zero, an average reserve was calculated based upon the rest of the individual certificates and the reserve to be held on those certificates is \$8,895. Thus the reserve for the individual certificates is \$308,588.

Currently all group certificates are reserved using an unearned premium methodology. The examination actuary has determined that this methodology is an incorrect methodology for those certificates on which the member had purchased a rider that allowed the member to participate in the 50 year program (the 50 year program provided that if the member had participated in the Order for 50 years, no more dues would be payable and in essence the insurance certificate would become paid up). It would clearly be inappropriate for a certificate to carry only an unearned premium reserve for 50 years and then at the end of the fiftieth year all of a sudden begin to carry a fully paid up reserve. Information necessary to calculate the reserve appropriately (issue age, issue date, age or date at which the member would attain 50 year membership, etc.) was not provided to the examiners during the examination. Without such determinates, it is not possible to estimate the reserves other than to use the face amount of the certificate as the reserve. The amount of reserves to be used on the group business is \$2,047,824, for a total reserve of \$2,356,412.

It is recognized that this reserve increase significantly impacts the Order's surplus. However, without the proper reserve factors and the proper parameters on which those reserve factors are based, it is impossible to properly calculate the reserves. It is recommended that the Order take the proper steps to ensure that the reserves are properly calculated in the next annual statement filed with the Insurance Department. If the reserves are properly calculated, the results may be less than those reserves stated above, but without them being properly calculated, it is not possible to determine how much the reduction will be.

The Order was not calculating reserves on the individual certificates in accordance with the reserve basis stated in the certificates, namely, the 1941 CSO Table, with interest at 3 1/2% using the full preliminary term reserve method. However, the Commissioner of Insurance in a letter dated May 28, 2005, gave the Order permission to use the 1958 CSO Mortality Table on a retroactive basis. In addition, there were numerous individual certificates that did not carry any reserve whatsoever because of missing reserve factors at individual ages and durations. In addition, there were a number of individual certificates that were not credited with the 50% increase in face amount.

The Order was not calculating tabular reserves on those group certificates subject to a fifty year membership rider (monthly premium of \$1). This rider allows the member to no longer pay premiums after being a member for fifty years. The Order was carrying only an unearned premium reserve on those group certificates. The correct issue age and issue date was not available on those group certificates in order to calculate a correct reserve.

Because of the above issues, the examination actuary determined that it would be appropriate to use the face amount as the reserve for those group certificates subject to the 50 year membership rider.

The Order's Exhibit of Life Insurance did not reflect the number of policies revived, expired, surrendered, or lapsed during the year; instead, the Exhibit only reflected a net decrease in the number of policies and the amount of insurance in force.

The opining CPAs who prepare the Exhibit of Life Insurance stated that the Order "...does not track reinstatements and other changes during the year to the number of insurance policies and insurance amount inforce at year end." Therefore the number in the Exhibit of Life Insurance for net decrease in life insurance is a "...net number to complete the rollforward of the outstanding # of certificates/insurance..."

The analysis of increase in reserves exhibit was not completed in accordance with the NAIC Annual Statement Instructions.

In reviewing the actuarial opinions for 2002 and 2003, it was noted that the actuarial opinions did not contain the date that the Board of Directors of the Order appointed the consulting actuary to render the annual statement actuarial opinions. It is a requirement that the consulting actuary state the date that he was appointed to render annual statement actuarial opinions.

On the group certificates, a tabular reserve is required to be held on those certificates with the 50 year rider. Information required to calculate tabular reserves was not available. The tabular reserves should be based upon the 1960 CSG Table with 4 1/2% interest, and a net level premium reserve methodology.

The Order did not produce a reserve run by plan, issue year, face amount and issue age for either the individual certificates, certificates that had gone on extended term or those group certificates subject to the 50 year membership rider. These runs are necessary in order to properly check the reserve factors and reserve extensions.

**Note 10 - Contract claims: Life**

**\$176,342**

The captioned amount is the same as reflected by the Order in its 2003 Annual Statement.

The Order's opining actuary did not document the method for calculating the incurred but not reported claim liability. The amount of claims paid during 2004 (up through May 10th) was less than the amount held as a reserve (both due and unpaid and incurred but not reported); therefore, no change is reflected in the financial statements contained in this report.

The Order did not calculate a liability for claims adjustment expenses. The examination actuary has set up a liability of \$10,500 for this liability.

**Note 11 - General expenses due or accrued**

**\$58,467**

**Taxes, licenses and fees due or accrued**

**\$ 0**

**Borrowed money**

**\$ 0**

The captioned amounts are the same as reflected in the Order's 2003 Annual Statement. No changes were made to the financial statements contained in this report due to immateriality.

The examiner requested and reviewed payments over \$250 made from January 01, 2004 through February 29, 2004. The examiner identified \$69,009, \$10,542 more than the Company recorded as a liability, of expenses paid in 2004 that related to 2003.

In addition, the examiner identified \$2,008 in 2003 taxes, licenses and fees that were paid in 2004 and there was no accrual established.

The Order is not paying its Visa bill off each month and there was an outstanding balance at year-end 2003 of \$10,107, of which \$5,107 was not paid in January 2004, which represents borrowed money.

**Note 12 - Amounts withheld or retained by Society  
as agent or trustee**

**\$38,351**

The captioned amount is the same as reported by the Order in its 2003 Annual Statement.

The examiner obtained a listing of un-cashed checks from the CPA's workpapers. The examiner noted that the listing has remained at the same amount for four years, which indicates that this listing has not been updated for new un-cashed checks and that no amounts have been escheated.

The examiner compared the Alabama Councils to the unclaimed checks listing. There were no Alabama councils on the listing. It appeared that most, if not all of the checks, related to Louisiana Councils.

In addition, the examiners noted that there was an accrual for \$5,417 in this line item for "payroll liabilities." The CPAs did not have workpapers supporting this accrual as they deemed it immaterial.

**Note 13 - Asset valuation Reserve**

**\$102,898**

The captioned amount is \$33,738 more than the \$69,160 reported by the Order in its 2003 Annual Statement.

The preceding report of examination recommended that the Order utilize a factor of 30% for unaffiliated common stock in determining the maximum reserve. The NAIC Annual Statement Instructions did change in 2002 to a maximum factor of 20%. The Company utilized factors of 20%, 13%, and 13% in 2001, 2002, and 2003, respectively.

In addition, the Company classified two mutual funds as "Other Long-Term Invested Assets" instead of the appropriate classification of common stock.

The recalculated reserve, correcting the errors noted above, resulted in the \$33,738 increase.

**Note 14-- Unassigned funds****\$958,568**

The captioned amount is \$1,130,634 less than the \$2,089,202 reported by the Order in its 2003 Annual Statement.

This difference resulted from the following examination changes.

**Unassigned funds per Company's  
2003 Annual Statement****\$2,089,202**

Examination (decreases) to assets:

Common stocks \$ 76,139

Other invested assets ( 76,139)

Interest due and accrued ( 14,651)

Total decrease to assets

\$ ( 14,651)

Examination (increases) to liabilities:

Aggregate reserve for life contracts \$(1,082,245)

Asset valuation reserve ( 33,738)

Total (increase) to liabilities

**\$(1,115,983)**

Total (decrease) to surplus

**\$(1,130,634)****UNASSIGNED FUNDS PER EXAMINATION****\$ 958,568**

## **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The Order has not been fined for any of the licensing violations noted during the preceding report of examination. To date, the Order has not rectified the licensing problems cited.

The examiner noted that potential contingent liabilities could result from the Order having written policies in states where they are not licensed. This examination was unable to determine the amount of any potential contingency.

## **SUBSEQUENT EVENTS**

The examiners reviewed general ledger and cash transactions occurring subsequent to the balance sheet date. In addition, examiners inquired of management regarding any significant subsequent events. Neither of these reviews disclosed any material subsequent events.

The Executive Director of the Order has been incapacitated due to illness since December of 2003. In addition, the Order's Bookkeeper, who has been serving in the capacity of Office Manager during the Executive Director's absence, is retiring December 2004. Mr. McFarland, Supreme Knight, indicated that:

"I will be meeting with Charles on September 3 to discuss his medical prognosis and his future with KPC. Our priority is to secure the Executive Director's position. Then, the Executive Director will hire the Associate Director.

In view of Ms. Fortune's departure at the end of the year, we will advertise the accountant's position within the next three weeks. We anticipate bringing the new accountant on Board at least thirty days before Ms. Fortne's [sp] retirement date.

I am confident that we will have a management team in place prior to the end of the year to carry on the operations. We were blessed to have an experienced staff in place during Charles' absence. This has certainly facilitated the uninterrupted continuation of our fraternal and insurance business."

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

In addition to the specific items noted below, also see "Comments and Recommendations" beginning on Page 30 for additional items noted.

### Territory and Plan of Operation – Page 8

**It is again recommended** that the Order become licensed in each jurisdiction where it conducts business. Conducting business includes having councils and conducting any activity of insurance under the fraternal benefit society laws of any state.

**It is again recommended** that the Order not sell insurance products in states where the Order is not licensed to sell insurance. **It is recommended** that the Order accurately complete its Exhibit of Life Insurance in Annual Statements and not include membership in the Order when no insurance product is included in the membership.

**It is again recommended** that the Order identify those jurisdictions where a fraternal benefit society is prohibited from writing group life policies and take appropriate action to correct the conversions and not write any additional group policies in those jurisdictions.

### Member Complaints – Page 11

**It is again recommended** that the Order maintain a complaints register in the format suggested by the NAIC Market Conduct Examiners Handbook.

### Policy Forms and Underwriting Practices – Page 10

**It is again recommended** that, for policies issued prior to January 1, 1998, the Order provide non-forfeiture benefits, such as paid-up insurance or cash surrender values. In accordance with the Alabama Insurance Code, fraternal benefit societies were allowed, but not required to offer non-forfeiture benefits in its life benefit certificates prior to January 1, 1972, however, after January 1, 1972, and in accordance with Section 27-34-25(a), Code of Alabama 1975, as amended, fraternal benefit societies were required to offer at least one paid-up non-forfeiture benefit, in its whole life insurance plans.

## **COMMENTS AND RECOMMENDATIONS**

### **Board of Directors – Page 4**

**It is again recommended** that the Order include the full names of the Directors in its Annual Statements. **It is recommended** that the Order list all Directors in its Annual Statements (including Directors who are also Officers of the Order).

### **Conflict of interest – Page 7**

**It is again recommended** that the Order maintain copies of the annual conflict of interest statements filed by the officers, directors, and responsible employees of the Order.

### **Treatment of claimants – Page 11**

**It is recommended** that the Company document reasons for delays in its claims file documentation.

**It is recommended** that the Company date stamp all incoming correspondence/documentation relating to claims.

**It is recommended** that the Company pay all claims within sixty days of satisfactory proof of death in accordance with the Company's Constitution.

### **Independence of Opining CPA – Page 12**

**It is recommended** that the CPA firm engaged to perform the Company's annual financial audit demonstrate independence and not perform other accounting functions for the Company, including, but not limited to, supervision of the accounting operations, and the compilation of Quarterly and Annual Statements. It was noted that the opining CPA firm did not test the reserve calculations provided by the Order's consulting actuary.

### **Consideration of Fraud – Page 13**

**It is recommended** that the Company establish a procedure for reporting fraudulent insurance acts to the Commissioner of Insurance. **It is**

**recommended** that the Company modify its claim forms and applications to indicate that any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

### **Compliance with ALA. ADMIN. CODE § 482-1-122 – Page 13**

**It is recommended** that the Order provide its members with privacy notice as required by ALA. ADMIN. CODE §482-1-122.

### **Bonds – Page 18**

**It is recommended** that the Order comply with SSAP No. 26 of the NAIC Accounting Practices and Procedures Manual Section 6 which requires that "Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst)."

**It is recommended** that the Order calculate and disclose the effective rate of interest in the appropriate sections of Schedule D as required by the NAIC Annual Statement Instructions.

**It is recommended** that the Order accurately report its cost for investments in accordance with the NAIC Annual Statement Instructions.

**It is again recommended** that the Order not invest in mortgage-backed securities unless they also want to invest in the expertise and monitoring requirements that are required by these types of securities.

### **Preferred stocks – Page 19**

**It is again recommended** that the Order file SARs (Security Acquisition Reports) for securities that are not valued by the NAIC SVO or non-admit them until such time as they have been valued by the NAIC VOS.

### **Common stocks and Other invested assets – Page 19**

**It is recommended** that the Order file SARs (Security Acquisition Reports) for securities that are not valued by the NAIC SVO or non-admit them until such time as they have been valued by the NAIC VOS

### **Cash and short-term investments – Page 22**

**It is recommended** that the Company establish a centralized filing system to file copies of all vouchers written, including voided checks.

### **Investment income due and accrued – Page 20**

**It is recommended** that the Order calculate interest due and accrued instead of relying on its custodian to accurately provide this information.

**It is recommended** that for securities that are not located in the VOS, the Order should maintain evidence of the market value at year-end from a nationally recognized rating source (Bloombergs, Moody's S&P, etc.)

### **Uncollected premiums and agents' balance in the course of collection Premiums and annuity considerations received in advance – Page 20**

**It is recommended** that the Order report appropriately calculated amounts in future Annual Statements for these line items.

### **Cash surrender value life insurance – Page 21**

**It is recommended** that the Order carry as an admitted asset the lower of the cash surrender value of the life insurance policy that it owns or 50% of the death benefit since the Order is a 50% beneficiary. This recommendation is based on the principles contained in Section 5 of the NAIC Accounting Practices and Procedures Manual SSAP No. 21.

### **Prepaid expenses – Page 21**

**It is recommended** that the Order maintain detail of all assets reported in its Annual Statement and that the Company comply with SSAP No. 29 regarding prepaid expenses.

Aggregate reserve for life contracts – Page 22

**It is recommended** that the Order determine all of the individual certificates that are entitled to the 50% increase in face amount and hold reserves on the total face amount the member is entitled to.

**It is recommended** that the Order maintain a complete reserve factor table, so that all individual certificates have a reserve.

**It is recommended** that the Order hold a tabular reserve on those group certificates subject to the 50 year membership rider based upon the 1960 CSG Table and 4 ½% interest.

**It is recommended** that the Order determine the correct issue age, issue date and face amount on all of those group certificates subject to the 50 year membership rider.

Until such time as the Order is able to properly address the above issues and properly calculate reserves, **it is recommended** that the Order hold the face amount of the individual certificates and the face amount of those group certificates subject to the 50 year membership rider as the reserve.

**It is recommended** that the Order complete Annual Statements in the format required by the NAIC Annual Statement, including but not limited to revived during year, maturity, surrender, and lapse; furthermore, **it is recommended** that the Order maintain supporting in-force records that reconcile to the properly completed Annual Statement.

**It is recommended** that the analysis of increase in reserves exhibit be completed in accordance with annual statement instructions.

**It is recommended** that the consulting actuary incorporate into his actuarial opinions in the future the date that he was appointed by the Board of Directors of the Order to be the appointed valuation actuary for the Order.

**It is recommended** that the Order calculate the proper reserves, based upon the appropriate mortality table, interest rate and methodology in the next annual statement filed with the Insurance Department.

**It is recommended** that the Order produce reserve runs that show detail and summaries by plan, issue year, issue age and face amount.

**Contract claims: Life – Page 25**

**It is recommended** that the consulting actuary document the methodology for calculating the incurred but not reported claim liability.

**It is recommended** that the Order calculate and set up a liability for claims adjustment expenses each year.

**General expenses due or accrued**

**Taxes, licenses and fees due or accrued**

**Borrowed money – Page 25**

**It is recommended** that the Order establish an adequate accrual for general expenses due or accrued at year-end.

**It is recommended** that the Order establish an adequate accrual for taxes licenses and fees due or accrued.

**It is recommended** that the Order establish a liability for borrowed money for amounts that the Order carries a balance on its Visa account.

**Amounts withheld or retained by Society as agent or trustee – Page 26**

**It is recommended** that the Order document its compliance with unclaimed property laws in the states where it is holding unclaimed funds, including but not limited to the State of Louisiana.

**It is recommended** that the Order maintain documentation supporting all accruals, including supporting workpapers and calculations.

**Asset Valuation Reserve – Page 26**

**It is recommended** that the Order utilize a reserve objective factor of 20% for unaffiliated common stock, if the Company cannot support the alternative weighted average portfolio beta calculation, in accordance with the NAIC Annual Statement Instructions.

### Subsequent Events – Page 28

It is recommended that the Order have management in place in order to ensure that the Order has adequate administrative capacity to meet its obligations in a timely manner.

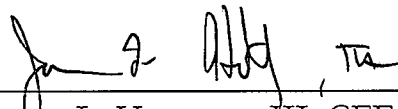
## CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing Knights of Peter Claver, Inc. during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Harland Dyer, MAAA, Consulting Actuary; representing the Alabama Department of Insurance, participated in this examination of Knights of Peter Claver, Inc.

Respectfully submitted,

  
\_\_\_\_\_  
James L. Hattaway, III, CFE  
Examiner-in-charge  
Alabama Department of Insurance